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FISCAL IMPACT STATEMENT

LS 7593
BILL NUMBER: HB 1471

NOTE PREPARED: Apr 9, 2009
BILL AMENDED: Feb 12, 2009

SUBJECT: Assessment Rules.

FIRST AUTHOR: Rep. Pelath
FIRST SPONSOR: Sen. Hershman

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill contains the following provisions:

Assessment Rules: This bill prohibits the Department of Local Government Finance (DLGF) from changing the standards used to assess tangible property for property tax purposes except as necessary to bring a rule into conformity with a statute, or, the case of a rule governing trending, to bring the rule into conformity with a standard issued by the International Association of Assessment Officials (IAAO).

Valuation Date: The bill changes the valuation date used in the last reassessment to March 1of the year immediately preceding the reassessment date.

Agricultural Land: This bill provides that land is assessed as agricultural land only when it is utilized for to agricultural purposes (as defined by the General Assembly or recognized by the United States Department of Agriculture) and it prohibits rules restricting the calculation of the circuit breaker for agricultural land.

The bill also repeals a law requiring the State Board of Tax Commissioners (which no longer exists) to adopt rules.

Effective Date: Upon passage; January 1, 2009 (retroactive); July 1, 2009.

Explanation of State Expenditures: *(Revised) Assessment Rules:* The DLGF has promulgated new real property and mobile home assessment rules that will be effective for taxes payable in 2012. Under this proposal, the new rules would be voided and the current rule would remain in effect indefinitely. The DLGF would be required to update the various tables, formulas, and values contained in the rules to account for changes since the last general reassessment. The DLGF would be permitted to amend the assessment rules to bring them into conformity with IAAO standards so long as there is no conflict with the statute. The DLGF should be able to make the updates with existing resources.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *(Revised) Assessment Rules:* A requirement to continue the current assessment rules for taxes payable in 2012 and later would result in assessments that are different each year only because of market forces. Assuming that all property is currently assessed in accordance with the assessment and trending rules, a general reassessment under the same rules but with updated tables should result in only modest one-year changes to assessments. Changes in assessments drive tax shifts, and along with levy growth, affect the cost of circuit breaker credits.

Valuation Date: Annual adjustments under the current rule on trending are based on the property valuation as of January 1 of the year prior to the assessment date. This valuation date has been changed to match the assessment date in the general reassessment rule already promulgated for the March 1, 2011, reassessment. (This is the rule that would be voided under this bill.) Beginning with the March 1, 2011, assessment date (taxes payable in 2012) this bill would require that the valuation date and the assessment date be the same.

The more current assessments would have an effect on the tax base, tax rates, and circuit breaker credits. When values are on the decline or growth is slow, then the assessed value base will be smaller under this bill than under current law. The smaller AV base would result in higher tax rates. The higher tax rates and lower assessments would then result in higher circuit breaker credits in areas where the circuit breaker has been triggered.

When values are growing at a higher rate, then the assessed value base will be larger under this bill than under current law. The larger AV base would result in lower tax rates. The lower tax rates and higher assessments would then result in lower circuit breaker credits in areas where the circuit breaker has been triggered.

Agricultural Land: Under current law, land is assessed as agricultural land only if it is devoted to agricultural use. Under this bill, land would be assessed as agricultural land only if it is utilized for agricultural purposes as defined by the General Assembly or recognized by the U.S. Department of Agriculture. This provision would have minimal, if any, impact.

Also under current law, agricultural land is subject to a 2% circuit breaker cap (2.5% in 2009). The cap for other business property is 3% (3.5% in 2009). This bill would prohibit the DLGF from restricting the calculation of the 2% credit for land utilized as agricultural land. This provision clarifies that the property tax on land qualified by its use as agricultural land will be capped at 2% of gross AV (2.5% in 2009), regardless of the overall parcel use classification assigned by the local assessor.

State Agencies Affected: DLGF.

Local Agencies Affected: Township and county assessors.

Information Sources:

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